
WEEK IN REVIEW | REINHART FIXED INCOME BY MADISON INVESTMENTS

May 31, 2024

INFLATION

In April, the Personal Consumption Expenditure deflator (PCE) rose 0.3% and 2.7% year-over-year. Core PCE, the Fed's preferred measure of inflation, rose 0.2% for the month and 2.8% over the last twelve months.

Our Take: Year-over-year core PCE at 2.7% is the lowest print since March 2021, giving rise to some hope that inflation is starting to move toward the Fed's 2% target. However, annualizing the last six months core PCE shows inflation at 3.2%, the highest this measure has been since last July. This really comes as no surprise given the reignition of inflation earlier this year. The April inflation data represents an improvement, but Fed sentiment will not change unless there are more reports like this one in the coming months.

PERSONAL INCOME AND SPENDING

Personal income rose 0.3% in April while spending increased 0.2%. Real personal spending (adjusted for inflation) fell 0.1%.

Our Take: For the past few years, spending has outstripped income on a consistent basis. This has led to today's record credit card debt and low savings rate. While the spending has driven economic growth, the party cannot go on forever. A slowdown in spending would help the fight against inflation, but at the expense of growth.

MUNICIPALS

Moody's Investors Service upgraded Maine's credit rating from Aa2 to Aa1. Moody's cited the state's "structurally sound budget" along with "sustained financial improvements including a large increase in reserves and solid pension contributions practices" as reasons for the upgrade.

Our Take: In recent years, Maine lawmakers and Governor Janet Mills have worked to produce balanced budgets and increase the state's rainy-day fund balance. In addition, Maine's economy has grown. Taken together, the state's financial strength has improved.



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ABOUT REINHART FIXED INCOME

Quality, stability, and predictability are the hallmarks of the Reinhart Fixed Income management philosophy. We believe that successful fixed income management is a product of understanding the role bonds play in a specific client's investment strategy and developing unique portfolios to meet the objectives of the client. Reinhart Fixed Income is part of Madison Investments, an independent investment manager providing active, high-quality, and high-conviction portfolios since 1974.

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Madison Investment Holdings, Inc. acquired the fixed income management assets of Reinhart Partners, Inc. on June 11, 2021 and now employs the Investment Team that previously managed the assets at Reinhart. The Investment Team manages the assets using substantially the same strategies and objectives as at Reinhart. Performance information dated prior to the purchase reflects that of Reinhart Partners, Inc.

Quality refers to the bond ratings provided by the various third-party ratings agencies. Stability and predictability refer to the cash flow of individual securities and not to the market value or performance of portfolio holdings. There is no guarantee this strategy will lead to investment success.

In addition to the ongoing market risk applicable to portfolio securities, bonds are subject to interest rate risk. When interest rates rise, bond prices fall; generally, the longer a bond's maturity, the more sensitive it is to this risk. Bonds may also be subject to call risk, which allows the issuer to retain the right to redeem the debt, fully or partially, before the scheduled maturity date. Proceeds from sales prior to maturity may be more or less than originally invested due to changes in market conditions or changes in the credit quality of the issuer.